

Auditing Procedures Report

Issued under Public Act 2 of 1968, as amended .

Unit Name	Allegan County Medical Care F+	County	ALLEGAN	Type	OTHER	MuniCode	030000
Opinion Date	August 1, 2008	Audit Submitted	August 6, 2008	Fiscal Year	12/31/2007		

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No".

<input checked="" type="checkbox"/>	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?		
<input checked="" type="checkbox"/>	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?		
<input checked="" type="checkbox"/>	3. Were the local unit's actual expenditures within the amounts authorized in the budget?		
<input checked="" type="checkbox"/>	4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?		
<input checked="" type="checkbox"/>	5. Did the local unit adopt a budget for all required funds?		
<input checked="" type="checkbox"/>	6. Was a public hearing on the budget held in accordance with State statute?		
<input checked="" type="checkbox"/>	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?		
<input checked="" type="checkbox"/>	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?		
<input checked="" type="checkbox"/>	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?		
<input checked="" type="checkbox"/>	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)		
<input checked="" type="checkbox"/>	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)		
<input checked="" type="checkbox"/>	12. Is the local unit free of repeated reported deficiencies from previous years?		
<input checked="" type="checkbox"/>	13. Is the audit opinion unqualified?	14. If not, what type of opinion is it?	NA
<input checked="" type="checkbox"/>	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?		
<input checked="" type="checkbox"/>	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?		
<input checked="" type="checkbox"/>	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?		
<input checked="" type="checkbox"/>	18. Are there reported deficiencies?	<input checked="" type="checkbox"/>	19. If so, was it attached to the audit report?

General Fund Revenue:	\$ 5,887,177
General Fund Expenditure:	\$ 6,215,628
Major Fund Deficit Amount:	N/A

General Fund Balance:	\$ 2,698,805
Governmental Activities Long-Term Debt (see instructions):	N/A

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (Reported deviations).

CPA (First Name)	Stephen	Last Name	Blann	Ten Digit License Number	1101024801				
CPA Street Address	2330 East Paris Ave. SE	City	Grand Rapids	State	MI	Zip Code	49546	Telephone	(616) 975-4100
CPA Firm Name	Rehmann Robson	Unit's Street Address	3265 122nd Ave.	City	Allegan	Zip Code	49010		



Allegan, Michigan

FINANCIAL STATEMENTS

For the Year Ended
December 31, 2007



REHMANN ROBSON

Certified Public Accountants

ALLEGAN COUNTY MEDICAL CARE FACILITY

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

INDEPENDENT AUDITORS' REPORT

August 1, 2008

Board of Directors
Allegan County Medical Care Facility
Allegan, Michigan

We have audited the accompanying statement of net assets of the ***Allegan County Medical Care Facility*** (an enterprise fund of Allegan County, Michigan) as of and for the year ended December 31, 2007, and the related statements of revenue, expenditures and changes in fund net assets and cash flows for the year then ended. These financial statements are the responsibility of the Allegan County Medical Care Facility's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Allegan County Medical Care Facility and do not purport to, and do not, present fairly the financial position of the County of Allegan, Michigan, as of December 31, 2007, and the changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Allegan County Medical Care Facility as of December 31, 2007, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 1, 2008, on our consideration of the Allegan County Medical Care Facility's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

As discussed in Note 12 to the financial statements, the Allegan County Medical Facility converted its basis of accounting to present its financial statements as an enterprise fund for the year ended December 31, 2007. Accordingly, an adjustment has been made to net assets as of January 1, 2007, to reflect the effect of this change.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the Allegan County Medical Care Facility. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

A handwritten signature in cursive script, reading "Lehmann Johnson".

FINANCIAL STATEMENTS

ALLEGAN COUNTY MEDICAL CARE FACILITY

Statement of Net Assets

December 31, 2007

Assets

Current assets

Cash and cash equivalents	\$ 834,377
Restricted cash and cash equivalents	28,114
Investments	600,000
Patient receivables, net	619,347
Total current assets	<u>2,081,838</u>

Capital assets not being depreciated	50,977
Capital assets being depreciated, net	2,361,881
Total capital assets	<u>2,412,858</u>

Total assets	<u>4,494,696</u>
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Liabilities

Current liabilities

Accounts payable	196,893
Accrued expenses	154,921
Patient trust liability (payable from restricted assets)	989
Current portion of advance from County of Allegan	14,850
Current portion of capital lease payable	50,000
Compensated absences	146,531
Total current liabilities	<u>564,184</u>

Noncurrent liabilities

Advance from County of Allegan, due in more than one year	256,707
Capital lease payable, due in more than one year	975,000
Total noncurrent liabilities	<u>1,231,707</u>

Total liabilities	<u>1,795,891</u>
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Net assets

Invested in capital assets, net of related debt	1,387,858
Restricted	27,125
Unrestricted	1,283,822
Total net assets	<u>\$ 2,698,805</u>

The accompanying notes are an integral part of these financial statements.

ALLEGAN COUNTY MEDICAL CARE FACILITY
Statement of Revenue, Expenses and
Changes in Fund Net Assets
For the Year Ended December 31, 2007

Operating revenue	
Net patient revenue	\$ 5,113,994
Other operating revenue	<u>52,150</u>
Total operating revenue	5,166,144
Operating expenses	<u>5,966,997</u>
Operating loss	<u>(800,853)</u>
Nonoperating revenue (expenses)	
Quality Assurance Supplement	645,168
Investment earnings	75,865
Maintenance of effort payment	(185,795)
Interest expense	(62,634)
Loss on disposal of capital assets	<u>(202)</u>
Total nonoperating revenues	<u>472,402</u>
Net loss before transfers	(328,451)
Transfers in	
Subsidy from County of Allegan	<u>144,192</u>
Net loss	(184,259)
Net assets, beginning of year, as restated	<u>2,883,064</u>
Net assets, end of year	<u><u>\$ 2,698,805</u></u>

The accompanying notes are an integral part of these financial statements.

ALLEGAN COUNTY MEDICAL CARE FACILITY

Statement of Cash Flows

For the Year Ended December 31, 2007

Cash flows from operating activities:

Receipts from patients and users	\$ 5,362,659
Payments to suppliers	(2,812,474)
Payments to employees	(2,926,853)
Net cash used in operating activities	<u>(376,668)</u>

Cash flows from noncapital financing activities

Quality Assurance Supplement	645,168
Subsidy from the County of Allegan	144,192
Maintenance of effort payment	(185,795)
Net cash provided by noncapital financing activities	<u>603,565</u>

Cash flows from capital and related financing activities

Acquisition and construction of capital assets	(159,151)
Repayment of advance from County of Allegan	(14,187)
Principal payments on long-term debt	(50,000)
Interest payments	(62,634)
Net cash used in capital and related financing activities	<u>(285,972)</u>

Cash flows from investing activities

Interest received	<u>75,865</u>
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Net increase in cash and cash equivalents

16,790

Cash and cash equivalents, beginning of year

845,701

Cash and cash equivalents, end of year

\$ 862,491

Cash and cash equivalents are classified on the statement of net assets as follows:

Cash and cash equivalents	\$ 834,377
Restricted cash and cash equivalents	<u>28,114</u>
	<u><u>\$ 862,491</u></u>

continued...

ALLEGAN COUNTY MEDICAL CARE FACILITY
Statement of Cash Flows (continued)
For the Year Ended December 31, 2007

Reconciliation of operating income to net cash provided by operating activities:

Operating loss	\$ (800,853)
Adjustments to reconcile operating income to net cash used in operating activities:	
Depreciation	248,862
Loss on disposal of capital assets	202
Change in provision for contractual allowances	78,422
Change in:	
Patient receivables	121,251
Accounts payable	(26,742)
Accrued expenses	6,217
Compensated absences	(869)
Patient trust liability	(3,158)
	<hr/>
Net cash used in operating activities	<u><u>\$ (376,668)</u></u>

The accompanying notes are an integral part of these financial statements.

ALLEGAN COUNTY MEDICAL CARE FACILITY

Allegan, Michigan

Notes To Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Allegan County Medical Care Facility (the “ACMCF” or the “Facility”) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Facility’s accounting policies are described below.

A. Financial Reporting Entity

The ACMCF is an enterprise fund of Allegan County, Michigan (the “County”) that provides long-term skilled care to residents of the County. A three-member board is responsible for establishing policies and oversight. The County appoints two board members and the State of Michigan appoints the third. An administrator manages the Facility’s daily operations.

B. Measurement Focus, Basis of Accounting and Basis of Presentation

The ACMCF uses a fund (i.e., a separate accounting entity with a self-balancing set of accounts) to report its financial position and the changes in financial position. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions and activities.

The ACMCF is operated as an enterprise fund, a proprietary fund type, which is used to account for operations that are financed and operated in a manner similar to private business. Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The ACMCF has elected not to follow subsequent private-sector guidance.

ALLEGAN COUNTY MEDICAL CARE FACILITY
Allegan, Michigan

Notes To Financial Statements

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the ACMCF are charges to patients for services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

C. Assets, Liabilities and Equity

1. Deposits

The ACMCF's cash and cash equivalents include cash on hand, demand deposits and deposits in the Allegan County Treasurer's cash management pool. The Treasurer's cash management pool has the general characteristics of a demand deposit in that deposits and withdrawals may be made at any time without prior notice or penalty.

State statutes authorize the ACMCF and the County to deposit in the accounts of federally insured banks, credit unions and savings and loan associations and to invest in obligations of the United States, certain commercial paper, repurchase agreements, bankers acceptances and mutual funds composed of otherwise legal investments.

2. Investments

Investments consist of certificates of deposit and are stated at market value.

3. Receivables

Patient receivables are shown net of Medicaid advance payments and an allowance for uncollectible accounts. Approximately 81% of patient revenues are generated from services to patients covered by Medicare and Medicaid. Retroactive adjustments to the per diem rates established under those programs and by other third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

ALLEGAN COUNTY MEDICAL CARE FACILITY
Allegan, Michigan

Notes To Financial Statements

4. *Advance from Allegan County*

During the course of operations, numerous transactions occur between the ACMCF and Allegan County for goods provided or services rendered. Such transactions that are representative of lending/borrowing arrangements outstanding at year-end are referred to as “Advance from the County of Allegan”.

5. *Restricted Assets*

Certain assets are classified as restricted assets on the statement of net assets because their use is limited to specific purposes as mandated by the Allegan County Board of Commissioners, the State of Michigan or third parties. These purposes include capital acquisitions/improvements and patient trust monies.

6. *Capital Assets*

Capital assets, which include property and equipment, are recorded at cost. Capital assets are defined by the ACMCF as assets with an individual cost of more than \$5,000 and an estimated useful life in excess of two years. Donated property and equipment are recorded at their estimated fair value at the date of donation.

Property and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend their lives are charged to expense when incurred.

<u>Asset Category</u>	<u>Useful Life in Years</u>
Land improvements	5 to 40
Building	40
Equipment	5 to 20

ALLEGAN COUNTY MEDICAL CARE FACILITY
Allegan, Michigan

Notes To Financial Statements

7. *Compensated Absences*

ACMCF employees are granted paid time off (PTO) in varying amounts based on length of service and are permitted to accumulate such earned but unused leave time subject to certain limitations. Earned but unused benefits at year-end are recorded as a liability in accordance with GASB Statement No. 16.

8. *Patient Trust Liability*

The Michigan Department of Treasury requires facilities such as the ACMCF to administer and account for certain patient monies. Accordingly, the patient trust liability recorded in the statement of net assets represents those patient monies on deposit with the ACMCF at year-end.

2. DEPOSITS AND INVESTMENTS

The captions on the financial statements relating to cash and investments are as follows:

Cash and cash equivalents	\$ 834,377
Restricted cash and cash equivalents	28,114
Investments	<u>600,000</u>
Total	<u>\$ 1,462,491</u>

Deposits and investments consist of the following at December 31, 2007:

On deposit with County	\$ 861,152
Checking/savings accounts	989
Certificates of deposit (maturing within one year)	600,000
Cash on hand	<u>350</u>
Total	<u>\$ 1,462,491</u>

ALLEGAN COUNTY MEDICAL CARE FACILITY
Allegan, Michigan

Notes To Financial Statements

Custodial credit risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Facility's deposits may not be returned. State law does not require and the Facility does not have a policy for deposit custodial credit risk. As of year-end, \$372,596 of the Facility's bank balance of \$776,337 was exposed to credit risk because it was uninsured and uncollateralized. The bank balance and federal deposit insurance coverage, if any, of the funds "on deposit with County" are not readily determinable inasmuch as those funds are deposited in the Allegan County Treasurer's cash management pool.

Interest Rate Risk. Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of deposits or investments. The Facility's investment policy complies with State guidelines and seeks to minimize interest rate risk by investing primarily in short-term securities, liquid assets, money market funds, or similar investment pools and limiting average maturities. The policy does not place specific limitations on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At year end, the ACMCF held no deposits or investments maturing in more than one year.

3. PATIENT RECEIVABLES

The details of patient accounts receivable are as follows at December 31, 2007:

Patient receivables	\$ 703,208
Deduct: Allowance for uncollectible accounts	<u>(83,861)</u>
Patient receivables, net	<u>\$ 619,347</u>

ALLEGAN COUNTY MEDICAL CARE FACILITY
Allegan, Michigan

Notes To Financial Statements

4. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2007 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Construction in progress	\$ -	\$ 50,977	\$ -	\$ 50,977
Capital assets, being depreciated:				
Land improvements	99,967	-	-	99,967
Buildings	4,301,062	37,907	(2,440)	4,336,529
Equipment	436,561	70,268	(20,410)	486,419
Total capital assets being depreciated	<u>4,837,590</u>	<u>108,175</u>	<u>(22,850)</u>	<u>4,922,915</u>
Less accumulated depreciation for:				
Land improvements	(78,977)	(8,658)	-	(87,635)
Buildings	(1,944,843)	(232,694)	2,440	(2,175,097)
Equipment	(311,000)	(7,510)	20,208	(298,302)
Total accumulated depreciation	<u>(2,334,820)</u>	<u>(248,862)</u>	<u>22,648</u>	<u>(2,561,034)</u>
Total capital assets being depreciated, net	<u>2,502,770</u>	<u>(140,687)</u>	<u>(202)</u>	<u>2,361,881</u>
Capital assets, net	<u><u>\$ 2,502,770</u></u>	<u><u>\$ (89,710)</u></u>	<u><u>\$ (202)</u></u>	<u><u>\$ 2,412,858</u></u>

ALLEGAN COUNTY MEDICAL CARE FACILITY
Allegan, Michigan

Notes To Financial Statements

5. LONG-TERM DEBT

Changes in long-term debt for the year ended December 31, 2007, were as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Capital lease payable	\$ 1,075,000	\$ -	\$ 50,000	\$1,025,000	\$ 50,000
Compensated absences	<u>147,400</u>	<u>171,184</u>	<u>172,053</u>	<u>146,531</u>	<u>146,531</u>
	<u>\$ 1,222,400</u>	<u>\$ 221,184</u>	<u>\$ 172,053</u>	<u>\$ 1,171,531</u>	<u>\$ 196,531</u>

The capital lease is payable to the Allegan County Building Authority for repayment of 1999 bonds payable. Principal payments are due annually at amounts ranging from \$50,000 to \$125,000, with interest payable semi-annually at 4.00% - 5.25% through 2018.

Future minimum obligations on the capital lease payable are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 50,000	\$ 46,937
2009	75,000	44,125
2010	75,000	40,731
2011	75,000	37,300
2012	100,000	33,225
2013-2017	525,000	94,406
2018	<u>125,000</u>	<u>2,969</u>
Total	<u>\$1,025,000</u>	<u>\$ 299,693</u>

ALLEGAN COUNTY MEDICAL CARE FACILITY

Allegan, Michigan

Notes To Financial Statements

6. RISK MANAGEMENT AND SELF-INSURANCE PROGRAMS

Liability

The Facility is exposed to risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Facility manages its risk exposures and provides certain employee benefits through a combination of self-insurance programs, risk management pools, and commercial insurance and excess coverage policies. Following is a summary of these risk-management pools and self-insurance programs, all of which are pooled with the County of Allegan programs.

Through the County, the ACMCF participates in the Michigan Municipal Risk Management Authority (MMRMA) for general and automobile liability, motor vehicle physical damage and property coverage. Under most circumstances, the maximum loss retention per occurrence is as follows:

Coverage	Self-insured retention
Liability	\$100,000
Property and crime	\$1,000 deductible per occurrence; 10% of the next \$100,000

Employee Health Insurance

ACMCF employees are eligible, along with other County employees, for vision and life insurance through insurance companies. Health and dental insurances are provided through a self-insurance fund of the County. The self-insurance programs are administered by a third-party who provides claims review and process services, as well as illustrated premium rates, which are anticipated over time, to approximate the costs of benefits.

Premiums for both commercial and self-insured programs are paid to the County to purchase insurance coverage from commercial carriers, or in the case of the self-insured programs, to pay health care claims, claim reserves, excess coverage and administrative funds based on illustrative or actual rates. Excess insurance coverage purchased by the County covers individual claims in excess of \$75,000 annually, subject to an aggregate annual limitation of \$1,000,000.

Further information and disclosures regarding risk management and self-insurance is provided in the County's comprehensive annual financial report.

ALLEGAN COUNTY MEDICAL CARE FACILITY
Allegan, Michigan

Notes To Financial Statements

7. MAINTENANCE OF EFFORT

Each month the ACMCF is billed by the State of Michigan for maintenance of effort in an amount equal to a specified rate times the number of Medicaid patient days approved by the State for that month.

8. CONTINGENT LIABILITIES

Amounts received or receivable from third-party payors, in particular Medicare and Medicaid, are subject to audit and adjustment by various intermediaries. The amount, if any, of such adjustments cannot be determined at this time although the ACMCF expects such amounts, if any, to be immaterial.

9. RETIREMENT PLANS

ACMCF employees participate, along with other Allegan County employees, in the Michigan Municipal Employees Retirement System. The plan is a multiple employer defined benefit plan, administered by the State of Michigan. During 2007, employer contributions of \$7,534 were made by the ACMCF in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2005. This plan is closed to new employees.

Further information regarding the Allegan County plan including detailed trend information is presented in the County's 2007 comprehensive annual financial report, which is available to the public.

The Facility also offers a defined contribution benefit plan through Allegan County. The County contributes 4% of eligible salaries and matches at 100% employee contributions up to 2%. ACMCF contributions for the year ending December 31, 2007 amounted to \$73,465.

ALLEGAN COUNTY MEDICAL CARE FACILITY
Allegan, Michigan

Notes To Financial Statements

10. ADVANCES PAYABLE TO ALLEGAN COUNTY

In 2004, ACMCF borrowed \$352,912 from the County for a renovation project. The loan agreement provides for repayment of the advance over eighteen years with interest at 4.67% per annum on the outstanding principal balance.

Repayment requirements to maturity are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 14,850	\$ 12,682
2009	15,544	11,988
2010	16,270	11,262
2011	17,029	10,503
2012	17,825	9,707
2013-2017	102,414	35,245
2018-2021	<u>87,625</u>	<u>9,594</u>
Total	<u>\$ 271,557</u>	<u>\$ 100,981</u>

11. COMMITMENTS

At December 31, 2007, the ACMCF had \$95,047 in outstanding construction commitments.

12. RESTATEMENT

For the year ended December 31, 2007, the Medical Care Facility changed its basis of accounting to present its financial statements as an enterprise fund to be consistent with its internal records and the State of Michigan's chart of accounts. As a result of this change in accounting method, beginning net assets were increased in \$1,314,307 (largely to reflect the value of capital assets in excess of long-term debt).

**SUPPLEMENTARY FINANCIAL
INFORMATION**

ALLEGAN COUNTY MEDICAL CARE FACILITY

Schedule of Net Patient Revenue For the Year Ended December 31, 2007

Daily room services

Medicaid	\$ 3,596,154
Medicare	481,226
Hospice unit	264,600
Private pay	567,768
Other insurance	<u>124,459</u>

Total daily room services	<u>5,034,207</u>
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Ancillary services

Pharmacy	67,185
Physical therapy	134,008
Occupational therapy	154,618
Speech therapy	72,014
Medical supplies	4,256
Other ancillary services	<u>161,000</u>

Total ancillary services	<u>593,081</u>
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Total patient revenue	5,627,288
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Revenue additions (deductions)

Provision for contractual discounts	<u>(513,294)</u>
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Net patient revenue	<u><u>\$ 5,113,994</u></u>
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ALLEGAN COUNTY MEDICAL CARE FACILITY
Schedule of Operating Expenses
For the Year Ended December 31, 2007

Nursing	\$ 1,893,381
Fringe benefits	1,156,564
Provider tax	426,754
Dietary services	534,924
Administrative salaries	291,144
Housekeeping	268,365
Depreciation	248,862
Resident activities	183,850
Facilities maintenance and utilities expense	171,361
Physical therapy	134,402
Laundry	79,113
Adjustment to provision for contractual allowances	78,422
Occupational therapy	68,233
Contractual services	59,483
Pharmacy	57,558
Speech therapy	37,516
Dues, licenses, and memberships	36,590
Generations program	33,180
Travel and training	27,669
Inservice education	26,891
Other medical services	23,351
Capital campaign expense	22,000
Transportation	21,800
Supplies	20,454
Medical director	18,000
Information technology	16,598
Furniture, equipment, and remodeling	13,979
Telephone	6,519
Advertising and public relations	5,814
Insurance	4,220
Total operating expenses	\$ 5,966,997

INTERNAL CONTROL AND COMPLIANCE



REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

August 1, 2008

Board of Directors
Allegan County Medical Care Facility
Allegan, Michigan

We have audited the financial statements of the *Allegan County Medical Care Facility*, (an enterprise fund of Allegan County, Michigan) as of and for the year ended December 31, 2007, and have issued our report thereon dated August 1, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Allegan County Medical Care Facility's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Allegan County Medical Care Facility's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Allegan County Medical Care Facility's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

Finding 2007-1 – Segregation of Incompatible Duties

Criteria:	Management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the Facility's assets.
Condition:	<p>During our audit we noted several incompatible duties that were not properly segregated or independently reviewed. We noted –</p> <ul style="list-style-type: none">• The physical receipting of cash/checks and responsibilities for general ledger adjustments, billing, and accounts receivable transactions are not segregated.• Bank reconciliations and general journal entries are not subject to independent review and signed approval by someone other than the preparer.• Disbursements do not required signed approval by the administrator or a department head before payment is made.• The payroll register is not subject to an independent review and approval before checks are cut.
Cause:	This condition is partly due to staffing constraints. We are aware that the Facility was in the process of improving internal controls and preparing written procedures manuals before the time of audit fieldwork. We commend the Facility for its work so far, and encourage it to complete this project by the end of 2008.
Effect:	While the results of our testing did not identify any inappropriate transactions, as a result of this condition, the Facility is exposed to an increased risk that misstatements (whether caused by error or fraud) could exist and not be detected.
Recommendation:	We recommend that the Facility continue to strengthen internal controls by segregating incompatible duties to the extent possible.
View of Responsible Officials:	The facility has implemented an internal controls policy and procedure to prevent potential financial fraud and abuse address each of these concerns. Our goal is to be fully implemented by 12/31/2008.

Finding 2007-2 – Material Audit Adjustments

Criteria:	Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (GAAP).
Condition:	During our audit, we identified and proposed a material audit adjustment to record an allowance for known uncollectible patient accounts receivable.
Cause:	This condition was the result of an oversight by management. Historically, account write-offs have only been submitted to the Board of Directors annually. Management did not recognize the need to create an allowance for known uncollectible balances for which the Board had not yet formally approved write-offs.

Finding 2007-2 – Material Audit Adjustments (Continued)

Effect:	As a result of this condition, the City's accounting records were initially misstated by amounts material to the financial statements.
Recommendation:	We recommend that the Facility keep a record of known or likely uncollectible balances at all times, and record these amounts as an allowance against accounts receivable until the Board approves them for write-off.
View of Responsible Officials:	A component of our newly implemented internal controls policy and procedure to prevent potential financial fraud and abuse requires the accounting coordinator and administrator to meet at least quarterly to discuss aged accounts receivable. Decisions regarding known uncollectable accounts will be determined at least quarterly and receivable balances adjusted in the month that the balance is determined to be uncollectable. The uncollectable amount will be recorded as an expense in the month that the board of directors take write-off action.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, of the significant deficiencies described above, we consider finding 2007-2 to be a material weakness.

Compliance and other Matters

As part of obtaining reasonable assurance about whether The Allegan County Medical Care Facility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Allegan County Medical Care Facility's response to the findings identified in our audit are described above. We did not audit the Allegan County Medical Care Facility's response and, accordingly, we express no opinion on it.

We noted certain other matters that we reported to management of the Allegan County Medical Care Facility in a separate letter dated August 1, 2008.

This report is intended solely for the information and use of management and the Board of Directors, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The script is cursive and fluid, with the first letters of each word being capitalized and prominent.



REHMANN ROBSON

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August 1, 2008

To the Board of Directors
Allegan County Medical Care Facility

We have audited the financial statements of *Allegan County Medical Care Facility* (the "Facility") for the year ended December 31, 2007, and have issued our report thereon dated August 1, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards

As stated in our engagement letter dated December 14, 2007, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the Facility. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Facility's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and our meeting about planning matters on December 10, 2007.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Facility are described in Note 1 to the financial statements. As described in Note 12 to the financial statements, the Facility changed its basis of accounting to present its financial statements as an enterprise fund for the year ended December 31, 2007, which resulted in a restatement of beginning net assets. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.
- Management's estimate of the allowance for uncollectible accounts receivable is based on history and knowledge of funding source requirements.

We evaluated the key factors assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. In addition, we proposed a material audit adjustment, which management has posted, to record an allowance for known uncollectible accounts receivable.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated August 1, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Facility's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the governing body and management of the *Allegan County Medical Care Facility* and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Lohorn". The signature is written in a cursive style with a large, prominent 'L' at the beginning.

Allegan County Medical Care Facility

Comments and Recommendations

For the Year Ended December 31, 2007

In planning and performing our audit of the financial statements of the Allegan County Medical Care Facility (the "Facility") as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Facility's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Facility's internal control. Accordingly, we do not express an opinion on the effectiveness of the Facility's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. The deficiencies we noted that we consider to be significant deficiencies are described in our report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. The deficiencies we noted that we consider to be material weaknesses are described in our report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*.

Allegan County Medical Care Facility

Comments and Recommendations

For the Year Ended December 31, 2007

Other Matters

Subledger Reconciliation

During our audit, we noted that the Facility does not have a procedure for periodically reconciling subsidiary detail to general ledger control balances. We noted several differences between subsidiary detail and the general ledger for accounts payable, accrued wages, and capital assets, which are summarized on the accompanying schedule of adjustments passed. We recommend that the Facility regularly compare general ledger balances to the subsidiary detail, reconcile any variances, and make necessary adjustments when material to the financial statements.

Physical Inventory of Capital Assets

The Facility has not completed a physical inventory of its capital assets in the past several years. We recommend that a full inventory be taken periodically (at least once every 3 years) and compared to the capital asset listing. Any discrepancies should be investigated and corrected.

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Allegan County Medical Care Facility
Schedule of Adjustments Passed (SOAP)
For the December 31, 2007 Audit

In accordance with the provisions of SAS 89, *Audit Adjustments*, we have prepared the following schedule of proposed audit adjustments, which we believe are immaterial both individually and in the aggregate. Also in accordance with SAS 89, we are providing this schedule to both management and the audit committee to receive their assurance that they agree that the amounts listed below are not material to the financial statements, either individually or in the aggregate, and do not need to be recorded.

	Effect of Passed Adjustment - Over(Under)Statement				
	Assets	Liabilities	Beginning Fund Balance	Revenue	Expenses/ Expenditures
Variance between resident trust fund detail and bank statement	\$ (2,753)	\$ (2,753)	\$ -	\$ -	\$ -
FICA tax not accrued as part of compensated absences payable	-	(11,210)	11,276	-	66
Variance between capital asset detail and general ledger totals	8,961	-	-	-	(8,961)
Unposted interest receivable on certificates of deposit	(18,662)	-	-	(18,662)	-
Untraced variance between accounts receivable subsidiary detail and general ledger balance.	29,698	-	-	29,698	-
Untraced variance between accounts payable subsidiary detail and the general ledger balance, from 2002 and prior	-	15,036	(15,036)	-	-
Totals	\$ 17,244	\$ 1,073	\$ (3,760)	\$ 11,036	\$ (8,895)